



Northern Ireland
Assembly

Committee for Enterprise, Trade and
Investment

OFFICIAL REPORT (Hansard)

Cross-border Economic Renewal:
Briefing from Dr John Bradley

11 April 2013

NORTHERN IRELAND ASSEMBLY

Committee for Enterprise, Trade and Investment

Cross-border Economic Renewal: Briefing from Dr John Bradley

11 April 2013

Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)
Mr Phil Flanagan (Deputy Chairperson)
Mr Steven Agnew
Mr Gordon Dunne
Mr Alban Maginness
Ms Maeve McLaughlin
Mr Stephen Moutray
Mrs Sandra Overend
Ms Sue Ramsey

Witnesses:

Dr John Bradley

The Chairperson: Briefing the Committee today on economic modelling and development strategies is Dr John Bradley from the Centre for Cross Border Studies (CCBS). You are very welcome to the Enterprise, Trade and Investment Committee. You have done tremendous work until now on cross-border economic renewal. We had a colleague with us here before, Michael D'Arcy, who has also done a lot of work on that theme. I ask members and anyone else who might be in the room to make sure that mobile phones are switched off or, at the very least, kept on silent, please.

The format for the Committee is that you are allowed some time to explain the key themes in your report and the conclusions of it. I have read the stuff in your report, and last night I also read the Northern Ireland economic strategy. A lot of that strategy is predicated on the potential for a reduction in corporation tax, which, as you know, has now been kicked well down the line by Mr Cameron, if ever a decision is going to come positively from that Government. It might be helpful if you would take us over the key findings in your report and the key issues and themes that you feel we might need to explore further as a Committee. Then it would be very valuable — and it is very useful and helpful that you are here at this time — if you could give us some sort of inkling, conclusion or evaluation of the impact of that corporation tax decision or non-decision, as it might have been. If you are content with that, the floor is now yours, and then we will hear questions from members afterwards. Thank you for being with us.

Dr John Bradley: Thank you very much, Chairman. I was very pleased to be invited to appear before you, but let me stress that I do not in any way represent the Centre for Cross Border Studies. Our report was commissioned and managed by the CCBS, and funded out of INTERREG funding by the Special EU Programmes Body. CCBS is not at all responsible for any of the conclusions of the report, and I would hate you to think that it was, because, of course, some of the conclusions might be quite controversial.

I gave you a summary by way of introduction. It is open to you to waive a repetition of that. If you wanted to move straight to a more open discussion, I would be quite willing to do that.

The Chairperson: If you are happy enough, we will move into that. I pointed you in the direction of the first question, which is on the corporation tax issue. It is mentioned in your report, and it is very heavily emphasised in the economic strategy for the North. Can you give us any sort of idea as to what you feel the implications of that non-decision by David Cameron might be for the North?

Dr J Bradley: Our work did not focus on that issue, but I am quite willing to talk about it. It appeared to me that the growth strategy published last year by Minister Foster was very much aimed at attracting foreign direct investment (FDI). There was an explicit assumption in that report that a lowering of the rate of corporation tax was imminent. That is where it connects with our work, because we were working in a region — quite a large region of Northern Ireland and a significant region of the Republic of Ireland — that has a low population density and that lacks the high-grade, third-level university systems that Dublin and Belfast have, and whose industrial base consists either of indigenous small and medium-sized enterprises (SMEs) or isolated branch plants. Those circumstances often give rise to the phenomenon of the one-plant town. A town gets its branch plant that employs 200 people, it exists for 20 years and then it closes, and there is devastation, because it is unconnected to the local economy. When I read the growth strategy for Northern Ireland, I was quite surprised at the negative picture of the SME sector that was presented in it. Indeed, as I read the background papers to the work of your Committee and the hearings that you conducted in your innovation, research and development study, it actually came out even more explicitly, say, in the evidence that was presented by the Department, that somehow those little firms got in the way. The phrase was used that they do not regard R&D as an opportunity, but more as a cost. In other words, you had placed all your eggs in the low-corporation-tax basket.

I am not saying that nothing else was going on. Of course, it was. However, it was peripheral to the main attractiveness that you saw from the rate of corporation tax. To an extent, as my quote from Dr Birnie's recent PricewaterhouseCoopers report implies, when that fades into the distance and is, now, decided on an all-UK basis, rather than bilaterally with Northern Ireland, you really do not have a plan B. That is basically the way I see it. I recommend strongly that members, particularly those from the constituencies in which the plants that we visited are located, glance at the relevant chapter in our report. As our visits showed, there is a thriving entrepreneurial SME sector. Since I am something of an economic historian, I can see that sector's links back to the time when Belfast was the largest city on the island of Ireland. In the 1910 census, the population of Belfast was bigger than that of Dublin. That spun out an extraordinary mixture of heavy industry, but also light industry, such as the furniture cluster of Monaghan and Armagh, which, basically, fed into ship construction in Belfast.

Many of those engineering and metal-bashing industries survive. They are actually very entrepreneurial. They do not need to be attracted by a low rate of corporation tax. They are here. They are run by people who have a stake in the country. If our interviews with those firms showed us anything, it was the extraordinary stake that they have and the way in which they cultivate their labour force. John Huddleston's on the Ards peninsula brought in secondary school students during the summer as visitors to the plant. The students got to know the business. Afterwards, the company funded them at colleges of further education. Watson's did the same.

We just kept coming across the way that those small firms had a great dedication to staying and producing in Northern Ireland. However, we found that they were in isolation. None of the extraordinary range of aids to R&D that you described affected those firms. The Department's statement was quite categorical. It did not see those firms as innovating and engaging in R&D, because it saw innovation and R&D in an excessively modern way — electronic, e-business and that kind of thing — whereas when we went onto factory floors and talked to the owners of some of those businesses, we could see that they were engaged in process innovation. They were adapting their production processes in order to lower their costs and meet international competition.

Some sectors failed to do that. The furniture sector in Monaghan and Armagh has largely declined to nothing. The rate of corporation tax is not relevant to those firms. If you neglected them and did not get your rate of corporation tax, you arrived at the conclusion that Dr Birnie arrived at. So, you will have actually backed yourself into a corner with your strategy.

The division of the development agencies in the South, breaking up the Industrial Development Agency (IDA) into the new IDA and Enterprise Ireland was actually quite a good move, because it permitted Enterprise Ireland to focus on exactly those kinds of firms. As we went around the border

regions, North and South, we found that, south of the border, Enterprise Ireland engaged with the local actors to a large extent. They were a presence in local development formulation. It was there to help them, and Dundalk is a very good example of that. When we went north of the border, we found that Invest Northern Ireland has a kind of remote presence. It has regional offices, but those mainly service its largely international client base, and it does not appear to engage with local SMEs in the way that Enterprise Ireland does. I am not saying that the southern agency is perfect and, in some ways, our report points out that it also makes mistakes.

That is my way of answering your question on corporation tax. It is too narrow a question. If your development strategy continues to focus on that, it will not bring you the benefits you expect, even if it is granted. That argument tends to neglect all the other changes that occurred in the South since export profit tax relief on manufactured goods was set at zero in 1956 and then mutated into what largely emerged at the end of the 1980s as a 12.5% rate on the whole enterprise sector. I do not hear much talk of the other factors.

Also, our report showed that there is a general neglect of the subregions in Northern Ireland, which is almost shocking. One of the main findings was that the data necessary to understand how subregional economies operate in Northern Ireland was entirely missing, due to the fact that the sample size of the annual business inquiry was set too small. The Scots had found exactly the same problem a few years before, and they beefed it up. At our conference just over a year ago, and just prior to the launch of this report, a representative from the Highlands and Islands region in Scotland gave us a stunning account of what was going on in that region on the production side — something you cannot do in Northern Ireland and you can just about do in the South of Ireland. In other words, you can talk about the economy of County Donegal or County Louth, but you cannot do that in Northern Ireland.

I will stop there. That might, in some way, have communicated to you the sense of surprise that I have at your putting so many of your eggs in the low-corporation-tax basket. You are largely ignoring what could potentially be the most vibrant sector in Northern Ireland: the SME sector.

The Chairperson: I and others here represent constituencies away from the big urban areas. I represent south Derry and east Tyrone. You will know that there is a heavy reliance on SMEs there and that they are the backbone of the local community. It is crucial that we support them, because that is really where any sort of revival is going to happen to keep local, sustainable jobs going.

You highlighted the differences between how things are in the rest in the Ireland and in the North with Invest NI, and you mentioned how things are moving along in Scotland. It is for us to establish how best practice can be shared for the common good — it does not matter where it comes from. That is our agenda. Businesspeople are looking to us as elected representatives, and saying what are they doing in Donegal and the Highlands and Islands of Scotland, and why are we not doing it here?

Mr Flanagan: — *[Inaudible.]*

The Chairperson: Aye. A lot of them are doing that, too, Phil. So you are giving us food for thought. I am sure that there are other members who want to come in as well, but those two points — learning from best practice and best experience on the rest of the island, and the stuff from Scotland — will be invaluable for the way forward. That is important for us, as we have Invest NI and the Minister coming in front of us in the next few weeks. We must pinpoint those key issues and ask them what they are doing about them.

Mr Flanagan: John, you are very welcome, and thanks for a very expansive report. It follows on nicely from the last report that we looked at on public sector co-operation. This report is all to do with enterprise, and it is very useful. As a Committee, we want to ensure that it is not left sitting on a shelf to gather dust, as happens to so many other reports. We want to see that the very good and sensible recommendations contained in the report are given a fair hearing, and not just simply dismissed out of hand.

The big recommendation that you make, and which most of the focus is on, is to do with the establishment of a cross-border economic zone. That is largely based on the fact that the lowest levels of economic growth on the island are along the border corridor. That is where the different economic strategies, different rates of taxation, different taxation systems and duplicate systems of bureaucracy really hamper levels of economic growth. Your whole purpose is to address the spatial, sectoral and institutional issues. How would such an enterprise zone work?

Dr J Bradley: The enterprise zone proposal was crystallised by Padraic White, the former head of the IDA. Professor Best and I are unashamedly academics and, in a previous hearing of this Committee, you expressed some thoughts about academics who were reluctant to propose solutions. When Padraic suggested this, it crystallised the kind of initiative that you need to break out of the bunker mentality that exists when we think about regions. It would be foolish and, indeed, counterproductive to attempt to do this with the two separate jurisdictions meeting at the border and shaking hands, because the characteristics of the border zone are almost identical, North and South.

One of the curious things that we found, say when we did an in-depth study of the remnants of the furniture sector in Monaghan, was that they actually had quite cordial relations across the border, but they did not trust each other. The distrust was local, rather than cross-border. Gradually, as we did our work, we realised that from a business perspective — and I stress that — the border is not a barrier that stops things that are happening either side of the border crossing the border. The border measures out two territories where none of this is happening on either side of the border.

Some of our comments, I admit, are trenchant and hard-hitting, and sometimes we had to exaggerate slightly for the sake of emphasis. Padraic picked up on the fact that the county development offices and the district council development offices were not functioning terribly well because they often had to deal with tiny little regions, like Strabane, which has 30,000 people and which is too small, and they were grossly under-resourced. They appear to have pulled back from behaving proactively, and one of the reasons for that was that the messages that they were getting from the centres, like Dublin and Belfast, were very mixed. In the South, we have abandoned our spatial strategy. We had what you might call a "Potemkin" spatial strategy; it really was a hollow strategy. In Northern Ireland, you have very good spatial planning strategies, but they do not reach over into economic development on a spatial basis.

Padraic saw this as a way of trying to cluster existing institutions so that they would be more powerful in their actions because they were all focused on common problems. It is a bit like the situation with SMEs. The reason why the Department here does not like SMEs is that it sees them in isolation. However, as the co-author of the report, Michael Best, has shown in his studies of northern Italy, the Boston cluster and elsewhere in the world, some of the richest regions in the world do not have big firms but clusters of small firms that specialise, co-operate and split up work between themselves, and they take on many of the characteristics of larger firms.

The institutional side of a border development zone would be horrendous. Our Taoiseach has already said that he does not want more institutions; we know the response. So, getting it off the ground would be very difficult, but we thought that if we made the case for that kind of policy initiative, there might be some way of finding a way through the maze of all the reasons why it would be difficult to do, not least of which is the sense of distrust across the border, which does not exist in the border region but which exists in Belfast and Dublin. That was the curious thing that we found from talking to businessmen and businesswomen in the border region: these issues that bedevilled politics were just never around, because they thought in business terms. In some ways, the level of bureaucracy that was identified in, say, your previous report on framework programme 7 picks up that SMEs just do not go down that route. Those big international programmes are not for them. What is needed is something much more local.

Let me give you an example. Castlecool, a cold storage plant in Castleblayney — it is described in detail in our report — started putting in place a little campus with quality laboratories that small start-up food firms could use. By setting up the facilities, Castlecool collected many such firms that could never have afforded it themselves, and everyone benefited. That is the kind of initiative that you would have expected to come from government, but it never did because the agencies, North and South, tend to have a sectoral view of firms that does not equate to the reality on the ground. For instance, the parent company of Feldhues, a German-owned firm in Clones that makes highly specialised meat products, also produces high-quality equipment for food processing. The reason why it can produce very specialised food products is that it has an engineering wing. So, you have to bring different groups together.

When we went to Derry/Londonderry, my colleague, who is something of a historian, was interested in finding the remnants of the huge clothing and textile sector there. We worked hard to try to find some remaining plants, and we did with Hunter, which is an extraordinary combination of logistics, assisted by advanced technology, and clothing manufacturing. By moving into the area of logistics and the supply of uniforms for British and Irish companies such as fire brigades, An Post and things like that, it was able to reposition itself, and it went from being what would be regarded by development agencies

as perhaps an old-fashioned "no hope" firm to a modern technological firm. It was a stunning example of the kind of lateral thinking that went on inside a firm that was in no way assisted by the way in which the development agencies talk. I think that some Committee members found some of the language of the Department and other agencies difficult to follow. I find it very difficult to follow. They speak in a kind of Meccano language that does not seem to have much relevance when you visit firms and see how they behave. It is aimed at something else.

The enterprise zone was a desperate effort on Padraic's part to try to put on the ground something that was much more relevant to the kind of firms that you find in these regions, and you are never going to have large-scale high-technology multinational plants in those regions.

Ironically — if I may finish on this remark — when we visited Seagate, which was an example of a large high-technology firm in Derry, we had a very interesting experience. We could not find the plant, and we were driving to it when 15-, 16- and 17-year-olds were going to school — the kind of people who would probably be looking for jobs in Seagate after they had been to college — and we stopped and asked them where Seagate was. They had never heard of Seagate. That really shocked us, because if you stopped any kids around Maynooth and asked them where Intel was, there would be no doubt, and they would point out where it was. When we got to Seagate, we were told by one of the senior management people that the kind of engineers that they needed in Seagate were not being produced locally in Magee and that they had to bring in Indians and people like that with the necessary qualifications. There seemed to be disconnect at many levels that even affected the large high-technology plants.

The Chairperson: I should tell you that representatives from the Derry Chamber of Commerce are sitting right behind you, and they are next up. I am sure that they are listening very intently, because a lot of what you concluded independently is quite a bit like what I and other members heard when we attended a meeting in Derry recently. We will hear more from them.

Dr J Bradley: I should stress that they were very helpful to me. *[Laughter.]*

The Chairperson: Did they get you a signpost for Seagate?

Phil, that was a very comprehensive answer to your question.

Mr Flanagan: It was. It was a short question, but it was a good answer.

With regard to your recommendation, John, how would they go about addressing the levels of regional disparity that we see on the island? The biggest problems are in the south-east, the west and along the border corridor, which is where the biggest peripheral places are from the centres in Belfast and Dublin. Everywhere else is really forgotten once you get out there. How would that recommendation and the wider work that you did deal with the issue of regional disparities?

The Chairperson: Dr Bradley, we have a number of other people coming in with another presentation. We could probably devote a whole meeting to this very valuable issue. However, given the importance of the issue, could you please keep your answers as succinct as you possibly can?

Dr J Bradley: There are three subregions of the border. The one centred on the north-east is part of the Belfast/Dublin corridor, and the overflow from Belfast and Dublin makes that a very prosperous central area with excellent transport communications. When you move over to the mid-border region, you still have quite good access roads. You have the food sector clusters for obvious reasons, and you have transport links all over the island. They are optimally positioned to serve the big markets in Dublin and Belfast, and that is where you would put them if you were designing it. The difficult region is the north-west, and you could have an entire meeting on that. We spell out some of the details in our report, so I will not go into the detail.

The Chairperson: I would say we will get some of those from the Chamber of Commerce as well.

Mr A Maginness: Your report is very challenging, to say the least. I wanted to focus on the performance of InterTradelreland. In the précis of your report, you state that you regard it as a cross-border body in that it focuses on the border regional economy, but you then discovered that it really took an all-island approach, which was quite different from what your initial view of the organisation was. Will you summarise your view of the utility of InterTradelreland? I have often taken the view that

it functions very well and does a lot of very good cross-border work, but implicit in your comments, although I am probably misrepresenting them, is that it is not functioning very well in the immediate border area.

Dr J Bradley: We have the highest respect for InterTradelreland. It was immensely helpful to us, and we kept coming across examples of its innovation and programmes in the border region, so no criticism of InterTradelreland is intended. As to our knowledge or feeling of it as a cross-border body, we were a bit dumb; not everyone understands what is going on until you look at it closely.

Its remit is all-island, which would have been a very intelligent and useful remit in 1998, but the business community has come on in leaps and bounds: the familiarity across the island that InterTradelreland has encouraged now exists. You, as policymakers, do not have to encourage business people to trade across the border or to co-operate across the border; that era is over. So, when we came with a specific focus on the border region, we were surprised that this was not the focus of InterTradelreland, but that it had a different remit. Of course, it was immensely well informed about what was going on in the border region. It would be the kind of leading force in bringing together or co-ordinating an enterprise development zone, because it is very hands-on. These people really know what they are doing. You have got that feedback from the firms that it assisted; this was not a remote bureaucracy in Dublin or Belfast, putting out calls for proposals and vetting them. That was not what was going on. These people were really on the ground, targeting small interventions where it really mattered. Castlecool cold storage plant wanted big energy users to switch to wind power. The feasibility study to do that was funded by InterTradelreland, and put together an Ulster University electronics professor with a young graduate electrical engineer from Galway. We just felt, "wow".

It is not that the border region has emerged as the problem region despite the existence of the border; it is just to do with the socio-demographic and economic characteristics of this region, which are the same on either side. This is the region that you really now have to focus on.

Mr A Maginness: So, you are saying that InterTradelreland is doing a good job of the macro, all-island stuff, and that we should let it continue to do so, and that, although it has been successful in doing that and encouraging those linkages, there now comes a point where it should also concentrate specifically on the border zone and on developing that.

Dr J Bradley: Yes. If, in the future, consideration was being given to extending, revising or modifying the remit of this particular cross-border implementation body, those would be the sort of issues that might come up. They would come up in a particularly non-political way because politics does not —

Mr A Maginness: Maybe I could make a general point. We could argue all day about politics, but, in a sense, we have to take the politics out of development of the economy on both sides of the border.

Dr J Bradley: It is helpful to do that. However, do not take policymakers out of it. Policymakers are very important and can put in place the funding and, more importantly, the institutions and encouragement. If agencies, in looking to Dublin or Belfast, feel that there is a political reluctance to get too close, they will not get close. Our report found that, although there were cordial relationships between the agencies, nothing much was happening at a strategic level on the ground. That is the way we characterise it, but that opinion might be disputed by the agencies.

Mr Frew: Thank you very much for your report, John. At the tail end of your essay, you talk about hidden currents and say that, historically, Governments and people can do what they like but the hidden currents define and change. Have you identified any of those hidden currents? Are they there? I take what you are saying, and I want to explore it more. In the Chamber, I sometimes lament the lack of private sector thinking in the corporate body, the elected Chamber and in government circles. We do not think like business or like the private sector. On the other side of that, some of the companies in my constituency of North Antrim, which has a good, firm manufacturing base, say to me and to government that, if you going to help us, help us quickly, and if you are not going to help us quickly, get out of our way. I get that a lot from small, medium and large global companies. It is sometimes hard to know what to do for the best. Do we get involved more? If we do, we need to get involved in a more meaningful way. I get the impression that business would be quite happy to see government at arm's length producing policies that will make a difference to their business and, to a large degree, their profits and employability. What is meant by hidden currents? What do we need to look for?

Dr J Bradley: It is a very deep question, and you have characterised the distinction between policymaking at government level and policy actions taken at enterprise level fairly well. If you are operating, as your main industrial incentive, a low rate of corporation tax, you can put it in place and sit back and people will feed off it. That is the way it looks, but it is not quite as simple as that. However, if you are trying to build the SME sector in regions of Northern Ireland and the Republic of Ireland that have a low-density population, are not very urbanised and do not have many of the prerequisites of larger cities, it is very difficult. You cannot just start throwing money around at firms. Firms would love that to happen, and they hate bureaucracy and accountability, and any time that you survey firms, you get that kind of response. That is understandable. However, if you had in place a more targeted industrial strategy that recognised that Northern Ireland is not just a single economy but is many economies, you would be able to evolve a series of aids that could be implemented quickly or, in other words, you would not be picking winners, because we sort of know now that Governments are bad at picking winners. You would be designing a kind of a winning environment. A company such as Turkington Engineering in Cookstown was a good example of us suddenly realising that we were in an engineering sector. Of course, when you go to talk to firms, they talk to you about that, especially since my colleague is an international expert. They were always reluctant to let us in the door, but once we got in, they did not want us to go because we were the first people who were really talking their language — at least, my colleague, Professor Best, was.

You have to turn the situation around and ask this: what would a strategy look like that would be encouraging and accommodating to the emergence, joining up and linkage of existing small firms, which at the moment are islands of excellence? That is where you pick up on the hidden currents. That is the language that those businesspeople talk. They are not sitting there waiting for the next innovation to come from government. They are getting on their bikes and going off seeking markets and really working very hard, and very often in firms that the development agencies may consider are in sunset sectors. However, anyone who thinks that you can construct an economy that consists of computers and pharmaceuticals with a bit of e-commerce thrown in really does not understand how the world works.

Look at the employment potential of the SME sector in the South. It may produce only 25% of GDP, but it employs more than 50% of the people in manufacturing. That is what you see. Those are the employment-intensive firms that have huge local multipliers because they are linked up to each other. Food processing is a classic example. That pulls in machinery, maintenance, manufacturing and adaptation. It is desperately hard to get that cycle working, which is, I think, why the development agencies tend to stay away from it. You have to have a lot of knowledge and make hard choices. It is also easier to have a lower rate of corporation tax.

Mr Frew: With regards to development, your document asks:

"If there appear to be so many worthy projects lying around waiting to be executed, what is stopping them?"

In your opinion, what is stopping them? Lowering corporation tax is one thing, and we can push that and ask for it as much as we want. Hopefully, we will get it but we may not, and time is of the essence. However, another major factor for the companies that I work with is energy costs and the differential between energy costs in this region and other areas around the globe, not least the Republic of Ireland. The imbalance between the two jurisdictions seems to be between what a domestic customer pays and what business pays.

We talk a lot here about fuel poverty, which is important. However, people lose the argument here and miss the point in some regards when, maybe through accident, we ignore what business pays for energy compared with what the domestic consumer pays in Northern Ireland. If we lose a business because of high energy costs, we instantly drop between 500 and 1,000 people and families who had employment there. Those thousand disappear and automatically go into fuel poverty overnight. Were energy costs on your radar? Were businesses talking about it? How big an issue is it?

Dr J Bradley: Energy intensive business is certainly aware, but many modern SMEs are not heavy energy users — Hunter in Derry; Castlecool is. It is bad enough to have a gulf between the rate of corporation tax, North and South, which is fairly disruptive. It is bad enough to have a currency differential, although that tends not to affect businesses, which hedge. It affects consumers more. When you start coming down to the differential in energy costs, you have to ask yourself whether you are in the business of building a vibrant production island or do you want two separate parts that

compete in a negative-sum game, in which one Ministry takes decisions on something that has negative consequence on the other without working out such consequences? That is all I can say.

Mr Frew: Are any other things stopping projects?

Dr J Bradley: No. The funny thing is that when you visit firms, as the Committee has — they were the most interesting hearings in your report on innovation — you do not get people whining about things. You get people talking about what they are doing and identifying real barriers that may be specific to their sector or more general to a series of sectors or to their region. You can do nothing about some of those things. You can do nothing about the north-west region until you improve its roads, air links and telecommunications.

Although it is not part of your remit, we were also always conscious that small businesses thrive where communities are at peace with each other. When using a private database of all enterprises in the island, we found some interesting and slightly disturbing statistics. We found that there was a fairly uniform relationship between the number of businesses and the population per thousand in an urban area. It started off low and then rose and plateaued. When you got to Belfast and Dublin, it plateaued; it did not continue to rise forever. However, Derry/Londonderry stood out like a sore thumb. There were far fewer businesses in that city than its population seemed to merit, and we could not understand why. We could think of a few reasons concerning its isolated position, but one of the reasons that we were driven to was that, in some ways, it did not function as a cohesive city and there were tensions within it. The number of businesses per thousand of population in Derry was more like a city half its size, which was very disturbing. As this is the second-largest urban conglomeration in Northern Ireland, and if you want Derry/Londonderry to act as a hub for the north-west region, that, rather than its peripheral location, is probably going to be your biggest drawback. Good businesses thrive in peripheral locations, but a society that is not comfortable with itself has all kinds of unquantifiable feedbacks on the retardation of enterprise.

Mr Dunne: Thanks for coming up to talk to us, John. I think that we are somewhat disappointed and surprised at your attitude to corporation tax. It is an issue that the Assembly has taken very seriously and that the Executive back, as does the business community out there, including the manufacturing sector. We have communicated widely with them, and the feedback is strongly supportive. We all see it as being significant in moving this country forward, particularly in trying to bring in foreign direct investment. So, I feel somewhat disappointed in your attitude towards that.

You also commented that the Department here does not like SMEs. Are you talking about the Department in relation to Invest NI and those dealing with the business sector or are you talking about the Departments throughout this island? Will you clarify that? You talked about Meccano language, which was quite interesting. Will you clarify what that is? Does it mean to talk in non-engineering speak?

We are somewhat disappointed. We recognise a number of the points that you have made. We see SMEs as being very significant to the economy. They are major employers in Northern Ireland, and there is great innovation and great skills and ability out there. As you have said, we have seen that. We have all been surprised by the lack of support they have got, especially from Europe. They have found it most difficult to get access to that support. We recognise that fully. The system that was in place — the framework programme 7 — was not suitable or applicable. So, we want to see changes there. Perhaps you could clarify some of those points, please.

Dr J Bradley: You may misunderstand my attitude to the Northern Ireland efforts to get a lower rate of corporation tax. I am not saying that it is a bad thing: I am saying that you have constructed and predicated your Northern Ireland development strategy on attaining a lower rate of corporation tax, and it does not look as though you will get that at any time soon. That is a statement of fact; it is not an opinion.

It certainly is an initiative that brought all parties together in Northern Ireland, and I was aware of that. I am probably one of the few people in Ireland who has read all the documentation that covered the earlier efforts to lower corporation tax, including Her Majesty's Treasury's response. I would characterise the justification of the claim for a lower rate of corporation tax as being incomplete, and it was seen as such by the Treasury. Of course, there is politics going on between London and Belfast, but you find yourself, willy-nilly, in the position where, realistically, you certainly will not have a lower rate of corporation tax prior to 2015-16.

Economists are bad at guessing, but I would imagine that Wales and Scotland would never be cut out of such a deal: if there is a lower rate of corporation tax, it will probably be part of a UK-wide lowering. Economic research points towards corporation tax being a crazy tax. Already in Europe, many countries are moving to zero rates and things such as that. If I were advising the Southern Government, which I am not, I would tell them that five more years is all they will get out of the deal and that they better have other incentives in place because that rate of corporation tax is about to vanish down the plughole.

So, I would not like you to think that I feel that lowering the rate of corporation tax is a bad idea. I just think that it is an idea whose time has not arrived and does not look like arriving. That is a problem for you. All I have stated is the problem.

On the issue of the Department of Enterprise, Trade and Investment (DETI) not looking on the SME sector with much favour, I have highlighted many parts of DETI's evidence, where it speaks in this language —

Mr Dunne: In Meccano language?

Dr J Bradley: No; saying that small firms — I will not exaggerate — do not innovate and largely regard innovation as a cost. I think that that is a wrong view, and it is a view that is shared nowhere else in the dynamic regions of SMEs in Europe or elsewhere in the world.

You asked about Meccano language. I like to write directly, which always gets me into trouble. I like to try to say what is on my mind.

The Chairperson: You are not in trouble here.

Dr J Bradley: I find the presentations from the official bodies in Northern Ireland difficult to read. I was highly amused to see the roasting you gave to the Department when it did not deliver its document in time. Much of what the Department says — this is harsh, but it is something that I would say about Southern Departments as well — is in defence of its existing policies, and it is not really open to much of a change. You see that in ways that only people like yourselves and ourselves, who have actually been to SMEs and talked to people in them, would see as wrong. The health of Northern Ireland and the Republic of Ireland could be greatly augmented by a more vibrant SME sector. However, it will be much, much harder to bring that about than through just getting a low rate of corporation tax for Northern Ireland within the UK. You will not get it from just that.

Mr Dunne: Our battle on corporation tax will continue; we will keep at it. Thanks very much for your input.

Dr J Bradley: Keep at it.

The Chairperson: I will just validate what Dr Bradley said there. I went through the 'Economic Strategy: Priorities for sustainable growth and prosperity' report last night. Paragraph 1.7 refers to the importance of policy levers and states:

"this Strategy assumes a successful outcome to the current negotiations with the UK Government on granting the Executive powers to vary the rate of corporation tax."

That is the point that we are talking about now. I mentioned in my opening remarks that a lot of the strategy is predicated on that very thing.

Dr J Bradley: That is not a bad idea if you felt that there was a realistic prospect of getting that change.

The Chairperson: As politicians, we all want to know what the alternative is. So, the big question is this: what if we do not get it? I am sure that somebody has sat down and asked that.

Dr J Bradley: I would not be so sure.

Ms Maeve McLaughlin: Thank you for the report, John. I have to say that it contains quite stimulating information. I have to respond on the references to Derry and the north-west. We will obviously hear

more about that, so I do not want to get into the specifics. However, I suggest to you that it is much more than simply a case of a city that is not comfortable with itself. There are issues with the points that you have made about the lack of a subregional strategy for the north-west that has targeted interventions. There is an infrastructure and skills mismatch. That city is challenging those issues very vocally and will continue to do so.

I am particularly interested in the focus on FDI as opposed to SMEs. During the week, I looked at a piece of work done through Trinity College. I think that it was done by Frank Barry. It indicates that, despite the recession, the growth of the indigenous sector has been much stronger than other sectors. Bluntly, in relation to the Twenty-six Counties model and SMEs, is it your view that there has been a lack of political will here, perhaps from DETI? I think that that is a huge issue.

I will make my comments altogether and then allow John to respond. The other issue is in and around the lack of economic data that you referred to, particularly when it comes to subregions. Chair, that may be something that the Committee wants to examine. John, you pointed out that that was quite stark and that the report shows a clear general neglect of subregions. When that was looked at, there was a consideration that data for subregions — for example, on production — is missing. I suggest that that is a huge tool that not only the North of Ireland but the entire island needs. Chair, that may be something that we want to pursue. I am very interested in what triggers it. John, you referenced Scotland and examples of people being able to present an immense amount of evidence-based data to back up issues around production or whatever the industry might be. Does that come down to a political will that needs to be there? As someone who comes from the north-west, I know that that work is critical. There is nothing to translate the subsections of the North of Ireland-wide economic strategy into a targeted sub-strategy for a region that looks at clusters within that. The work on that data is hugely important, and I would welcome your views on it.

Dr J Bradley: Although it looks like the most boring issue on the face of the earth, data is very interesting. Researchers are always whining about a lack of data. That is not where our comment is coming from.

It will be difficult to look at subregional strategies without such data. I would like to quote from the only reference to subregional growth in the Northern Ireland growth strategy. On the subject of balanced subregional growth, Minister Foster's report states:

"we will ensure that all sub regions are able to grow and prosper, whilst recognising the importance of Belfast and Derry/Londonderry as key drivers of regional economic growth".

That is it; there are no further references to sub-regions.

When we were trying to break up the border region, we eventually arrived at the north-east and the mid- and north-west. We found it desperately hard to answer basic questions about a production structure of the Northern Ireland district council regions. It was important to know what was going on, what kind of firms were there and their characteristics.

We fell back on a commercial database called Fame, which is not as good as Central Statistics Office (CSO) data, but it was all that we had. We were astonished to find that people were not using this database in the subregions, even though it was freely available in universities. There seemed to be an unwillingness to look into the subregions and ask hard questions.

I went to Netherleigh and banged the table and complained about that, and I got a very polite hearing. I understand that the Department has since increased the sample size for the annual business enquiry in Northern Ireland, and that, within the next few months, the 2011 data will be published. That may allow us to look at what is going on inside some of those regions without going around and knocking on firms' doors.

I formed the impression that the Department's publication policy was far less open than that of the Government in Scotland. When I came back from Netherleigh, I was asked why I was talking about subregions — their attitude seemed to be: "We do not talk about subregions". I called a colleague at a high level in the Scottish Parliament to ask how they were doing it. Within four hours, I had an e-mail from their statistician, telling me that all the information from the past four years was on their website and that I was welcome to use it.

The Chairperson: Can you elaborate on the type of data? What does it include?

Dr J Bradley: The data breaks the subregional economy into a series of sub-sectors, depending on how much of a sample is available. If it is a census, it breaks it down into highly specific sub-sectors; if it is a large sample, it may be broken down into 15 or 16 sectors.

Therefore, you could say how many firms in Derry/Londonderry are producing, perhaps, electronic equipment or food processing of various types. Within that, you can determine their gross output, their energy inputs, their added value, the number of people they employ and the skill levels of those employees, their average wage and investment levels. All that data exists in the Southern census of industry production down to the nearest four-digit levels. Of course, when you get down to very detailed levels, you sometimes have to amalgamate sectors in order to avoid disclosure.

You can do a certain amount of that work at the county level in Ireland, because the CSO data allows you to talk about the economy of Donegal at a certain level of disaggregation. You cannot do that in any of the Northern Ireland subregions. Therefore, we are not just talking about one or two sets of data, such as production or employment; we are talking about data that tells you precisely what is going on. For example, using that data, you can pick out the real high-technology firms. One of the characteristics of those firms is that the wage bill is a relatively small fraction of their added value. The bulk of it is profit or remunerating capital, whereas the wage bill of a traditional clothing firm will be about 80% or 85% of added value. You can see whom firms are employing, and you can trace back how it has been going over the years. You need that data to develop strategies; it is not an exercise in writing papers for academic journals. You cannot have a spatial strategy unless you find out quickly what is happening. Using the Southern data and the admittedly imperfect private sector database, we were able to characterise three subregions and identify the different problems that they faced and the different opportunities that they had seized.

The SME sector in the South, which is largely indigenous, has borne up rather well. However, it is very export-oriented; it exports 50% of its output. In any other European country, that would be massively open. However, that is to be compared with 95% or 98% of the output of the high-tech foreign sector, which is all exported. When the recession hit, the Irish SME sector did not collapse. It took a hit, but it was already export-oriented and was in downstream sectors from the foreign sector that gave it access to international markets. The bulk of this is in food processing, but a great deal of innovation goes on in this sector, as it does in Northern Ireland, where the food-processing sector is very important.

Ms Maeve McLaughlin: It would be useful for the Committee to consider the subregional issue. At some point, we should consider looking to that data with a view to collating information.

The Chairperson: This session has been very valuable; a whole range of issues has been considered. Thank you very much, Dr Bradley, for bringing them to our attention. Jim, can we get a Hansard transcript of the proceedings, because so many valuable and important issues have been raised? The Committee can then go through them and raise them with the Department and Invest NI.

Mr Agnew: Thank you for the presentation; it was frank and refreshing. I sit outside the consensus on corporation tax. Indeed, voices such as yours have suggested that we should have a broader focus than simply corporation tax, and there are those, such as mine, that oppose the reduction in corporation tax. There is a growing confidence in that. There was a time when, if you were against it, you must be wrong, because everyone else was for it. It never defined my politics, so it never bothered me in that sense.

It is interesting to hear your views. A fair summary of your position might be that we should build on what we have rather than trying to import what we feel we need. I sometimes see the foreign direct investment and corporation tax argument as being: we are weak, so let us import strength. We have strengths, and you have highlighted the fact that we can cluster and build on our SME sector rather than seeing it as a problem. As well as hearing that we are too public sector-focused, we hear that our economy depends too much on the SME sector. Rather than seeing that as a strength, we see it as a weakness.

You made a point about whether we see ourselves as an all-island economy that we should grow and strengthen together or as two competing regions. That is always a conflict in these discussions. Look at the corporation tax argument. We do not know what corporation tax would be lowered to, were we to get the power. Peter Robinson suggested that he would like to go lower than the rate in the South, to 10%. That indicates an intention to be a competing region rather than a complementary region

within the island. However, I think that the bigger problem is the race to the bottom. You mentioned countries going to a zero rate of corporation tax. Where do we stop?

What is your view on a single rate of corporation tax throughout Europe? Such a Europe-wide rate would say: let us stop eating ourselves in the race to the bottom with corporation tax; let us set an agreed rate, although that would be very difficult, and start competing as a region. We are trying to compete within Ireland — a very small part of the global economy. When competing with the Americas and the BRIC — Brazil, Russia, India, China — countries, Europe is a relatively small region. Europe needs to look at how it strengthens itself and competes on the international stage, rather than worrying too much about how Northern Ireland competes compared to other regions of the UK and Ireland. I am interested in your views on a single European rate of corporation tax to stop the continued race to the bottom.

Dr J Bradley: Economically speaking, that would remove a very divisive issue from the table, and you could focus on the inner strength of your production sector. You will not find anyone in the Southern Government who would agree that Ireland should not have one of the lowest rates of corporation tax in the EU. I am certain that the new member states have zero rates, but they have other problems. Therefore, I guess that we are the one with the lowest rate in an economy that is otherwise very attractive to FDI. The rate is not overcoming those barriers; it is just adding an extra incentive, albeit a big one.

I do not think that you would find anyone in the IDA who would actively campaign to give Northern Ireland a lower rate of corporation tax. That is fine. We have to live in the real world. I have always felt that political debate in Northern Ireland needs things to coalesce around, and the rate of corporation tax was an obvious choice. However, it took attention away from sectors of the Northern Ireland economy to which the debate was just marginally relevant because they do not usually pay the full rate of corporation tax anyway and you do not have to attract them in, as they are here already.

Mr Agnew: Although the argument would be made, and has been made, that you would benefit anyway by the big companies coming in because you would supply to them, and so on.

Dr J Bradley: In that sense, the manufacturing or enterprise sector of Northern Ireland has an interesting mirror image in the South. You had a very strong manufacturing sector in the 1950s, 1960s and into the 1970s, when you were a hegemony, even on the UK level. The sector declined for reasons that were clear to everyone; some political and some to do with traditional technologies. We in the South had nothing, and we constructed a kind of an eastern European manufacturing sector behind high-tariff barriers, which had to be dismantled in the 1960s. We reinvented a manufacturing sector largely built around foreign direct investment. Then, we reconstructed the SME sector, and it benefited greatly from all kinds of spillovers from the foreign sector. However, when we visited Northern Ireland firms, we were always aware that we were dealing with engineering strengths that went deep into history. It was very impressive. Those were the last surviving firms in this region. I have always thought that the complementarities between North and South on the business side are very important, but they have never been seized because it is difficult to do so. The agencies that should be egging on this process are the two national agencies, whose remits — other than in some vague marketing sense — stop at the border. That is a great pity, and we should get beyond it. On the SME side, this is absolutely a positive-sum game.

On the foreign direct investment side, until Northern Ireland sorts out its fiscal relationship within the UK, this is too confusing, and nobody in the South will make a move.

Mr Agnew: Would the certainty that we are not going to have it almost be better than the uncertainty that obtains?

Dr J Bradley: I hope that you get it, but I think that you will do so as part of a UK-wide settlement.

Mr Agnew: I have one brief question. Various figures have been bandied about on the cost of reducing corporation tax, but public spending would inevitably be reduced by necessity. The economic advisory group has come up with some figures and is recommending this as a policy to DETI and to government. The group predicts that we will break even in 11 years' time, after which we will begin to see the benefit. At what point does that cost become too great?

Dr J Bradley: I have never found such cost-benefit analysis calculus very convincing in all the documentation drawn up in support of lowering corporation tax. If you really believed that a lower rate

of corporation tax would revitalise your economy, it is a bet worth making. Of course, in 1956, when Ireland brought in the zero rate of export profit tax relief, none of the existing firms was exporting. It was of zero cost to the Irish economy. They were hopelessly inefficient, and this was brought in with the desire to encourage those firms to become export-oriented. What happened? It attracted foreign firms. If you look at 'Economic Development' by Ken Whittaker, the architect of Irish modernisation, he had exactly the wrong analysis but the right policies. *[Laughter.]* That is curious, and I have told him so, although it has got me into severe trouble. *[Laughter.]*

The Chairperson: And you keep saying it publicly.

Mr Agnew: Keep getting into trouble. *[Laughter.]*

The Chairperson: Thank you for your time, John. It has been a refreshing analysis of the economy and the issues around it that emanate from your report and the supplementary points that arose. We will have a Hansard report of today's proceedings. Issues have come up throughout our proceedings that we will pursue further with the Department, the Minister, Invest NI and in any other forum that we might be part of. Your time here today has been truly valuable to us.